

**CLAY COUNTY COMMUNICATIONS, LLC  
SPENCER, IOWA**

**FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITORS' REPORT  
Years ended December 31, 2009 and 2008**

**CLAY COUNTY COMMUNICATIONS, LLC  
SPENCER, IOWA**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Clay County Communications, LLC  
Spencer, Iowa

We have audited the accompanying balance sheets of Clay County Communications, LLC (an Iowa limited liability company) as of December 31, 2009 and 2008, and the related statements of income, changes in members' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clay County Communications, LLC as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Kiesling Associates LLP*

West Des Moines, Iowa  
March 2, 2010

**CLAY COUNTY COMMUNICATIONS, LLC  
SPENCER, IOWA**

**BALANCE SHEETS  
December 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 93,529	\$ 182,393
Accounts receivable:		
Members	231,494	167,238
Other	17,729	1,073
Inventory	16,299	13,277
Prepayments	11,365	11,030
	<u>370,416</u>	<u>375,011</u>
<b>OTHER NONCURRENT ASSETS</b>		
Prepayments	<u>31,498</u>	<u>37,091</u>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
PCS plant in service	1,050,850	924,773
Less accumulated depreciation	<u>191,653</u>	<u>118,709</u>
	859,197	806,064
Plant under construction	<u>-</u>	<u>14,940</u>
	<u>859,197</u>	<u>821,004</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,261,111</u>	<u>\$ 1,233,106</u>

The accompanying notes are an integral part of these financial statements.

## BALANCE SHEETS

### December 31, 2009 and 2008

	2009	2008
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt	\$ 5,304	\$ 5,020
Accounts payable:		
Members	16,713	26,025
Other	60,996	86,283
Advance billing and payments	43,070	42,447
Customer deposits	5,475	8,175
Accrued taxes	6,110	4,112
	<u>137,668</u>	<u>172,062</u>
 LONG-TERM DEBT, less current portion	 <u>92,124</u>	 <u>98,195</u>
 OTHER NONCURRENT LIABILITIES		
Asset retirement obligation	<u>16,436</u>	<u>14,750</u>
 MEMBERS' EQUITY	 <u>1,014,883</u>	 <u>948,099</u>
 <b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	 <u>\$ 1,261,111</u>	 <u>\$ 1,233,106</u>

The accompanying notes are an integral part of these financial statements.

**CLAY COUNTY COMMUNICATIONS, LLC  
SPENCER, IOWA**

**STATEMENTS OF INCOME  
Years ended December 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>OPERATING REVENUES</b>		
Wireless services	\$ 993,142	\$ 769,734
Phone and accessory sales	70,086	90,332
Miscellaneous revenue	991	14,518
Uncollectibles	<u>(5,489)</u>	<u>152</u>
	<u>1,058,730</u>	<u>874,736</u>
<b>OPERATING EXPENSES</b>		
Cost of wireless services	341,305	264,273
Cost of phone and accessory sales	225,294	190,158
Network operations	121,471	101,889
Depreciation and accretion	73,720	66,044
Customer operations	179,748	154,182
Corporate operations	42,703	38,764
General taxes	<u>7,109</u>	<u>6,168</u>
	<u>991,350</u>	<u>821,478</u>
<b>OPERATING INCOME</b>	<u>67,380</u>	<u>53,258</u>
<b>OTHER INCOME</b>		
Interest income	728	581
Allowance for funds used during construction	3,460	2,457
Interest expense	<u>(4,784)</u>	<u>(4,832)</u>
	<u>(596)</u>	<u>(1,794)</u>
<b>NET INCOME</b>	<u><u>\$ 66,784</u></u>	<u><u>\$ 51,464</u></u>

The accompanying notes are an integral part of these financial statements.

**CLAY COUNTY COMMUNICATIONS, LLC  
SPENCER, IOWA**

**STATEMENTS OF CHANGES IN MEMBERS' EQUITY  
Years ended December 31, 2009 and 2008**

	<u>Evertex, Inc.</u>	<u>Spencer Municipal Utilities</u>	<u>Total</u>
Ownership Percentage	<u>50 %</u>	<u>50 %</u>	<u>100 %</u>
Balance, December 31, 2007	\$ 448,317.50	\$ 448,317.50	\$ 896,635.00
Net income	<u>25,732.00</u>	<u>25,732.00</u>	<u>51,464.00</u>
Balance, December 31, 2008	474,049.50	474,049.50	948,099.00
Net income	<u>33,392.00</u>	<u>33,392.00</u>	<u>66,784.00</u>
Balance, December 31, 2009	<u>\$ 507,441.50</u>	<u>\$ 507,441.50</u>	<u>\$1,014,883.00</u>

The accompanying notes are an integral part of these financial statements.

**CLAY COUNTY COMMUNICATIONS, LLC  
SPENCER, IOWA**

**STATEMENTS OF CASH FLOWS  
Years ended December 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 66,784	\$ 51,464
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and accretion	73,720	66,044
Changes in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	(80,912)	(21,231)
Inventory	(3,022)	13,761
Prepayments	5,258	6,112
Increase (Decrease) in:		
Accounts payable	(34,599)	20,136
Accrued taxes	1,998	4,112
Other	(2,077)	10,718
Net cash provided by operating activities	<u>27,150</u>	<u>151,116</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	<u>(110,227)</u>	<u>(138,506)</u>
Net cash used in investing activities	<u>(110,227)</u>	<u>(138,506)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long-term debt	-	150,000
Repayment of long-term debt	<u>(5,787)</u>	<u>(46,785)</u>
Net cash provided by (used in) financing activities	<u>(5,787)</u>	<u>103,215</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(88,864)	115,825
Cash and Cash Equivalents at Beginning of Year	<u>182,393</u>	<u>66,568</u>
Cash and Cash Equivalents at End of Year	<u>\$ 93,529</u>	<u>\$ 182,393</u>

The accompanying notes are an integral part of these financial statements.



**CLAY COUNTY COMMUNICATIONS, LLC  
SPENCER, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2009 and 2008**

**NOTE 1. ORGANIZATION**

Clay County Communications, LLC (an Iowa limited liability company, herein referred to as "the Company") was formed in 2006 to provide wireless telecommunications utilizing Personal Communications Services (PCS) spectrum in a service area located primarily in Clay County, Iowa. This service is provided by leasing licensed PCS spectrum from Evertex, Inc. Each member provides these services under their own name to the customers in their markets. Evertex, Inc. and Spencer Municipal Utilities (Communications Utility only) participate in this partnership, each with a 50% interest under an agreement filed in accordance with Iowa Code Chapter 28E. The members are entitled to equally share all profits and will equally be responsible for all losses of Clay County Communications, LLC. This agreement shall terminate on May 1, 2016, but may be extended by mutual agreement for an additional five years.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation

The accounting policies of the Company conform to accounting principles generally accepted in the United States of America. Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management has evaluated subsequent events through March 2, 2010, the date the financial statements were available for issue.

Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash equivalents.

Accounts Receivable

The Company writes off accounts receivable as uncollectible at the time they are deemed to be uncollectible. At December 31, 2009 and 2008, management of the Company considers all receivables to be collectible. Accordingly, no allowance for doubtful accounts has been established.

Inventory

Inventory is stated at the lower of cost or market with cost determined by the average cost method. Inventory consists of wireless mobile telephone equipment that is purchased by the Company primarily for sale to customers.

**CLAY COUNTY COMMUNICATIONS, LLC  
SPENCER, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2009 and 2008**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Property, Plant and Equipment

Property, plant and equipment is capitalized at original cost including the capitalized cost of salaries and wages, materials, certain payroll taxes, employee benefits and interest incurred during the construction period.

The Company provides for depreciation for financial reporting purposes on the straight-line method by the application of rates based on the estimated service lives of the various classes of depreciable property. These estimates are subject to change in the near term.

Renewals and betterments of units of property are charged to plant in service. When plant is retired, its cost is removed from the asset account and charged against accumulated depreciation less any salvage realized. No gains or losses are recognized in connection with routine retirements of depreciable property. Repairs and renewals of minor items of property are included in plant specific operations expense.

Asset Retirement Obligations

Generally accepted accounting principles require entities to record the fair value of a liability for legal obligations associated with an asset retirement in the period in which the obligations are incurred. When the liability is initially recorded, the entity capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset.

Long-Lived Assets

The Company would provide for impairment losses on long-lived assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Based on current conditions, management does not believe any of its long-lived assets are impaired.

Income Taxes

Under provisions of the Internal Revenue Code, the members include their respective shares of Partnership income or loss on their individual tax returns. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

The Company adopted new accounting guidance related to accounting for uncertainty in income taxes on January 1, 2009. In accordance with the guidance, the Company has evaluated its income tax positions. The Company has determined that there are no uncertain income tax positions that need to be recorded or reported in the financial statements at December 31, 2009.

**CLAY COUNTY COMMUNICATIONS, LLC  
SPENCER, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2009 and 2008**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Revenue Recognition

The Company earns wireless service revenues by providing access to its wireless network (access revenue) and for usage of its wireless system (airtime revenue). Access revenue from postpaid customers is billed either in advance or arrears and recognized ratably over the service period. Airtime revenue, including roaming revenue and long distance revenue, is billed in arrears based on minutes of use and is recognized when the service is rendered. Prepaid airtime sold to customers and revenue collected from pay-in-advance customers is recorded as deferred revenue prior to the commencement of services, and revenue is recognized when airtime is used or expires. Access and airtime services provided are billed throughout the month according to the bill cycle in which a particular subscriber is placed.

The Company offers enhanced services including caller ID, call waiting, call forwarding, three-way calling, no answer/busy transfer, text messaging and voice mail. Generally, these enhanced features generate additional service revenues through monthly subscription fees or increased wireless usage through utilization of the features. Other optional services may also be provided for a monthly fee. These enhanced features and optional services may be bundled with package rate plans or sold separately. Revenues for enhanced services and optional features are recognized as earned.

Equipment sales consist principally of revenues from the sale of wireless handsets and accessories to new and existing customers and to agents and other third-party distributors. The revenue and related expenses associated with the sale of wireless handsets and accessories through our indirect sales channels are recognized when the products are delivered and accepted by the agent or third-party distributor and probability of collection is likely. Shipping and handling costs for wireless handsets sold to agents and other third-party distributors are classified as costs of sales and services.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were \$4,663 and \$22,418 in 2009 and 2008, respectively.

Fair Value Measurements

Recent accounting guidance for financial assets and liabilities presented at fair value defines "fair value", establishes a framework for measuring fair value, and expands disclosures related to fair value measurements. The guidance does not expand the use of fair value measurements in financial statements, but rather standardizes its definition and application in generally accepted accounting principles. The guidance provides for the use of three levels of input in determining fair value measurements. (Level 1 - quoted market prices; Level 2 - observable inputs of quoted market prices for similar or inactive items; and Level 3 - unobservable inputs.) The Company deferred until January 1, 2009 the adoption of this guidance for all non-financial assets and liabilities that are recognized or disclosed on a non-recurring basis. This includes goodwill, intangibles and non-financial long-lived assets that are measured at fair value in impairment testing.

**CLAY COUNTY COMMUNICATIONS, LLC**  
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**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2009 and 2008**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform with the 2009 presentation.

**NOTE 3. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment includes the following:

	<u>2009</u>	<u>2008</u>
PCS plant in service:		
Buildings	\$ 47,694	\$ 47,694
Communications equipment	4,224	4,224
Wireless equipment	537,832	433,365
Towers	<u>461,100</u>	<u>439,490</u>
 Total property, plant and equipment	 <u>\$ 1,050,850</u>	 <u>\$ 924,773</u>

Depreciation on depreciable property resulted in composite rates of 7.38% and 7.63% for 2009 and 2008, respectively.

Depreciation expense was \$72,944 and \$65,352 for the years ending December 31, 2009 and 2008, respectively.

**NOTE 4. ASSET RETIREMENT OBLIGATION**

The Company has determined that asset retirement obligations exist as there is a legal obligation to remove at the time the Company discontinues its use. The Company's cost to remove these assets is accrued over the life of the assets. These costs, measured at fair value, are valued at level three in the fair value hierarchy. Under the level three valuation, the Company estimated the cost of removal of the equipment and towers using current expected labor and overhead cost including a contractors mark up for similar removal projects. These costs were adjusted for inflation at 3.3% and a market-risk premium of 4.9% to arrive at the expected cash flows for removal. The expected cash flows were discounted at 4.9% using a present value technique. Accordingly, the Company has recorded a liability of \$16,436 and \$14,750 on December 31, 2009 and 2008, respectively. The expense in 2009 and 2008 for the accretion and depreciation related to asset retirement obligations is \$1,483 and \$1,357, respectively.

**CLAY COUNTY COMMUNICATIONS, LLC  
SPENCER, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2009 and 2008**

**NOTE 5. LONG-TERM DEBT**

Long-term debt consists of:

	<u>2009</u>	<u>2008</u>
State Bank - 5%	\$ 97,428	\$ 103,215
Less current portion	<u>5,304</u>	<u>5,020</u>
	<u>\$ 92,124</u>	<u>\$ 98,195</u>

The annual requirements for principal payments on long-term debt for the next four years are as follows:

2010	\$ 5,304
2011	5,603
2012	5,919
2013	80,602

Substantially all assets of the Company are pledged as security for the long-term debt under certain loan agreements with State Bank in Spencer, Iowa. These mortgage notes are to be repaid in equal monthly installments covering principal and interest beginning after date of issue and expiring by February 2013.

Cash paid for interest, net of amounts capitalized, for 2009 and 2008 totaled \$1,324 and \$2,375, respectively.

At December 31, 2009, of the funds available for long-term notes and lines of credit, all funds were advanced.

**NOTE 6. SPECTRUM LEASE**

The Company leases licensed PCS spectrum from Evertek, Inc. The Company paid \$50,000 to lease this spectrum from August 2006 through June 2015. The Company amortizes this to expense monthly as the lease expires. The total amount expensed for leasing this spectrum was \$5,204 in the years ended December 31, 2009 and 2008.

Estimated lease expense for the next five years is:

<u>Year Ending December 31,</u>	<u>Amount</u>
2010	\$ 5,204
2011	5,204
2012	5,204
2013	5,204
2014	5,204

**CLAY COUNTY COMMUNICATIONS, LLC**  
**SPENCER, IOWA**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2009 and 2008**

**NOTE 7. RELATED PARTY TRANSACTIONS**

During the course of normal operations, the Company had transacted business with its members. These transactions include equipment and management services purchased from Evertek, Inc. and Spencer Municipal Utilities as well as spectrum leased from Evertek, Inc. A summary of the related party activity is as follows:

	<u>2009</u>	<u>2008</u>
Equipment and Management Services Purchased:		
Evertek, Inc.	\$ 84,098	\$ 44,650
Spencer Municipal Utilities	<u>161,958</u>	<u>145,530</u>
	<u>\$ 246,056</u>	<u>\$ 190,180</u>

The Company had the following amounts included in accounts receivable for equipment and services purchased:

	<u>2009</u>	<u>2008</u>
Evertek, Inc.	\$ 34,992	\$ 36,850
Spencer Municipal Utilities	<u>196,502</u>	<u>130,388</u>
	<u>\$ 231,494</u>	<u>\$ 167,238</u>

The Company had the following amounts included in accounts payable for equipment and services purchased:

	<u>2009</u>	<u>2008</u>
Evertek, Inc.	\$ 3,287	\$ 6,261
Spencer Municipal Utilities	<u>13,426</u>	<u>19,764</u>
	<u>\$ 16,713</u>	<u>\$ 26,025</u>